

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Aurelia, Iowa.

Hunzelman, Putzier & Co., PLC reported that the City of Aurelia's receipts totaled \$775,096 for the year ended June 30, 2005, a four percent decrease from 2004. The receipts included \$229,809 in property tax; \$317,530 from charges for service; \$111,004 from operating grants, contributions and restricted interest; \$67,585 from local option sales tax; \$16,397 from unrestricted investment earnings; and \$32,771 from other general receipts.

Disbursements for the year totaled \$706,369, a two percent decrease from the prior year, and included \$112,856 for culture and recreation, \$102,014 for public works, and \$77,399 for public safety. Also, disbursements for business type activities totaled \$255,003.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF AURELIA
INDEPENDENT AUDITOR'S REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

CITY OF AURELIA
INDEPENDENT AUDITOR'S REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-10
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 11-12
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B 13
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C 14
Notes to Financial Statements	15-21
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	23
Notes to Required Supplementary Information - Budgetary Reporting	24
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Non-major Governmental Funds	1 26
Schedule of Indebtedness	2 27
Bond Maturities	3 28
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4 29
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30-31
Schedule of Findings	32-36

CITY OF AURELIA

OFFICIALS

Richard Vogt	Mayor	January, 2006
Robert Forbes	Council Member	January, 2006
Donald Handy	Council Member	January, 2006
Nancy Webb	Council Member	January, 2006
Dee Keith	Council Member	January, 2008
Charles Lindgren	Council Member	January, 2008
Barb Messerole	Clerk/Administrator	Indefinite
Ryan Kolpin	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Aurelia, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Aurelia, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of City of Aurelia, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of City of Aurelia, Iowa, as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America..

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Aurelia, as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2005 on our consideration of City of Aurelia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 10 and 23 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Aurelia's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed qualified opinions on those financial statements, because the financial data of a component unit was not included. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungelman, Putzier & Co.

July 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Aurelia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 7.9%, or approximately \$40,000, from fiscal year 2004 to fiscal year 2005.

Disbursements of the City's governmental activities decreased 2.9%, or approximately \$14,000, in fiscal 2005 from fiscal 2004.

The City's total cash basis net assets increased 6.7%, or approximately \$69,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$17,000 and the assets of the business type activities increased by approximately \$52,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property taxes and state grants finance most of these activities.

Business Type Activities include the water, sewer, and garbage services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, and (3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage, and storm sewer funds. The water, sewer, and garbage funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u> <u>(Expressed in Thousands)</u>		
	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 19	\$ 21
Operating grants, contributions and restricted interest	111	124
General receipts:		
Property tax	230	248
Local option sales tax	68	73
Unrestricted investment earnings	8	4
Other general receipts	<u>32</u>	<u>38</u>
Total receipts	<u>468</u>	<u>508</u>
Disbursements:		
Public safety	77	85
Public works	102	95
Culture and recreation	113	106
Community and economic development	21	20
General government	75	94
Debt service	<u>63</u>	<u>65</u>
Total disbursements	<u>451</u>	<u>465</u>
Increase in cash basis net assets	17	43
Cash basis net assets beginning of year	<u>490</u>	<u>447</u>
Cash basis net assets end of year	<u>\$507</u>	<u>\$490</u>

The City's total receipts for governmental activities decreased by 7.9%, or \$40,000. The total cost of all programs and services decreased by approximately \$14,000, or 2.9%. The decrease in receipts was due to a reduction in property taxes, local option sales taxes, and general receipts.

The cost of all governmental activities this year was \$451,000 compared to \$465,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 11-12, the amount taxpayers ultimately financed for these activities was only \$321,000 because some of the cost was paid by those directly benefited from the programs (\$19,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$111,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$321,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$127	\$126
Sewer	115	116
Garbage	51	52
Storm sewer	5	-
Unrestricted investment earnings	<u>9</u>	<u>9</u>
Total receipts	<u>307</u>	<u>303</u>
Disbursements:		
Water	91	114
Sewer	110	93
Garbage	<u>54</u>	<u>51</u>
Total disbursements	<u>255</u>	<u>258</u>
Increase in cash balance	52	45
Cash basis net assets beginning of year	<u>541</u>	<u>496</u>
Cash basis net assets end of year	<u>\$593</u>	<u>\$541</u>

Total business type activities receipts for the fiscal year were \$307,000 compared to \$303,000 last year. Total disbursements for the fiscal year decreased by 1.1% to a total of \$255,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Aurelia completed the year, its governmental funds reported a combined fund balance of \$506,856, an increase of \$16,715 from last year's total of \$490,141. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$37,143 from the prior year to \$302,243. This decrease was primarily due to the City installing new slides at the swimming pool and city park, and a decrease in funds received from the electric utility.

The Road Use Tax Fund, which accounts for monies received from the State of Iowa for road improvements, cash balance increased by \$8,791 to \$34,783 during the fiscal year. The City intends to use these funds for future street resurfacing projects.

The Local Option Sales Tax Fund, which was established to account for sales tax collected, maintained a cash balance of \$97,217 at June 30, 2005, an increase of \$40,577 over the prior fiscal year. The City intends to use these funds for future community betterment projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, cash balance increased by \$40,490 to \$335,932, due primarily to a decrease in disbursements associated with a lawsuit settled during the prior year.

The Sewer Fund, which accounts for the operation and maintenance of the City's sanitary sewer and wastewater treatment system, cash balance increased by \$8,655 to \$202,960.

The Sanitation Fund, which accounts for the operation of the City's solid waste collection and disposal system, cash balance decreased by \$2,220 to \$29,274.

BUDGETARY HIGHLIGHTS

For the year ended June 30, 2005 actual receipts and disbursements were \$29,276 and \$91,565 respectively, under budgeted amounts. The large difference in budgeted disbursements was primarily to a decrease in projects financed with local option sales tax monies and a decrease in disbursements associated with the water utility.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$1,278,000 in bonds and other long-term debt, compared to approximately \$1,368,000 last year, as shown below.

	<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>	
	<u>June 30,</u> <u>2005</u>	<u>2004</u>
General obligation bonds	\$ 450	\$ 490
Revenue notes and bonds	760	797
Capital leases	68	81
	<u>\$1,278</u>	<u>\$1,368</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$450,000 is significantly below its constitutional debt limit of \$1.5 million.

ECONOMIC FACTORS

City of Aurelia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the state of the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to the State's budget constraints.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barb Messerole, City Clerk, 236 Main Street, Aurelia, Iowa.

CITY OF AURELIA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental Activities						
Public safety	\$ 77,399	\$ 6,074	\$ 3,042	\$ (68,283)	\$ -	\$ (68,283)
Public works	102,014	-	88,301	(13,713)	-	(13,713)
Culture and recreation	112,856	13,257	11,006	(88,593)	-	(88,593)
Community and economic development	20,574	-	8,655	(11,919)	-	(11,919)
General government	75,233	-	-	(75,233)	-	(75,233)
Debt service	63,290	-	-	(63,290)	-	(63,290)
Total governmental activities	451,366	19,331	111,004	(321,031)	-	(321,031)
Business type activities						
Water	91,209	126,561	-	-	35,352	35,352
Sewer	109,596	115,086	-	-	5,490	5,490
Sanitation	54,110	51,377	-	-	(2,733)	(2,733)
Storm sewer	88	5,175	-	-	5,087	5,087
Total business type activities	255,003	298,199	-	-	43,196	43,196
Total	\$ 706,369	\$ 317,530	\$ 111,004	(321,031)	43,196	(277,835)
General Receipts:						
Property tax levied for:						
General purposes				154,805	-	154,805
Employee benefits				37,061	-	37,061
Debt service				37,943	-	37,943
Local option sales tax				67,585	-	67,585
Special assessments				1,973	-	1,973
Unrestricted interest on investments				7,581	8,816	16,397
Insurance dividend				4,558	-	4,558
Rent				2,047	-	2,047
Electric utility contribution				15,710	-	15,710
Sale of residential lots				3,375	-	3,375
Bank franchise tax				3,624	-	3,624
Miscellaneous				1,484	-	1,484
Total general receipts and transfers				337,746	8,816	346,562
Change in cash basis net assets				16,715	52,012	68,727
Cash basis net assets beginning of year				490,141	541,241	1,031,382
Cash basis net assets end of year				\$ 506,856	\$ 593,253	\$ 1,100,109

(Continued)

CITY OF AURELIA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets						
Restricted:						
Streets				\$ 34,783	\$ -	\$ 34,783
Debt service				11,741	90,544	102,285
Local option sales tax				97,217	-	97,217
Employee benefits				41,307	-	41,307
Other purposes				19,565	-	19,565
Unrestricted				<u>302,243</u>	<u>502,709</u>	<u>804,952</u>
Total cash basis net assets				<u>\$ 506,856</u>	<u>\$ 593,253</u>	<u>\$ 1,100,109</u>

See notes to financial statements.

CITY OF AURELIA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

		Special Revenue			Other Non-major Governmental Funds	Total
	General	Road Use Tax	Local Option Sales Tax	Debt Service		
Receipts:						
Property tax	\$ 153,810	\$ -	\$ -	\$ 37,698	\$ 36,822	\$ 228,330
Other city tax	995	-	67,585	245	239	69,064
Licenses and permits	1,518	-	-	-	-	1,518
Use of money and property	17,446	-	-	-	591	18,037
Intergovernmental	21,524	88,301	-	-	-	109,825
Special assessments	1,973	-	-	-	-	1,973
Miscellaneous	36,018	-	-	-	3,316	39,334
Total receipts	<u>233,284</u>	<u>88,301</u>	<u>67,585</u>	<u>37,943</u>	<u>40,968</u>	<u>468,081</u>
Disbursements:						
Operating:						
Public safety	60,791	-	-	-	16,608	77,399
Public works	19,539	79,510	-	-	2,965	102,014
Culture and recreation	105,198	-	-	-	7,658	112,856
Community and economic development	18,574	-	2,000	-	-	20,574
General government	66,325	-	-	-	8,908	75,233
Debt service	-	-	-	63,290	-	63,290
Total disbursements	<u>270,427</u>	<u>79,510</u>	<u>2,000</u>	<u>63,290</u>	<u>36,139</u>	<u>451,366</u>
Excess (deficiency) of receipts over disbursements	<u>(37,143)</u>	<u>8,791</u>	<u>65,585</u>	<u>(25,347)</u>	<u>4,829</u>	<u>16,715</u>
Other financing sources (uses):						
Operating transfers out	-	-	(25,008)	-	-	(25,008)
Operating transfers in	-	-	-	25,008	-	25,008
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(25,008)</u>	<u>25,008</u>	<u>-</u>	<u>-</u>
Net change in cash balances	<u>(37,143)</u>	<u>8,791</u>	<u>40,577</u>	<u>(339)</u>	<u>4,829</u>	<u>16,715</u>
Cash balances beginning of year	<u>339,386</u>	<u>25,992</u>	<u>56,640</u>	<u>12,080</u>	<u>56,043</u>	<u>490,141</u>
Cash balances end of year	<u>\$ 302,243</u>	<u>\$ 34,783</u>	<u>\$ 97,217</u>	<u>\$ 11,741</u>	<u>\$ 60,872</u>	<u>\$ 506,856</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ -	\$ -	\$ -	\$ 11,741	\$ -	\$ 11,741
Unreserved:						
General fund	302,243	-	-	-	-	302,243
Special revenue funds	-	34,783	97,217	-	60,872	192,872
Total cash basis fund balances	<u>\$ 302,243</u>	<u>\$ 34,783</u>	<u>\$ 97,217</u>	<u>\$ 11,741</u>	<u>\$ 60,872</u>	<u>\$ 506,856</u>

See notes to financial statements.

CITY OF AURELIA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	Enterprise Funds				
	Water	Sewer	Sanitation	Non-major Storm Sewer	Total
Operating Receipts:					
Use of money and property	\$ -	\$ 2,856	\$ -	\$ -	\$ 2,856
Charges for service	126,141	111,891	50,841	5,175	294,048
Miscellaneous	420	339	536	-	1,295
Total operating receipts	<u>126,561</u>	<u>115,086</u>	<u>51,377</u>	<u>5,175</u>	<u>298,199</u>
Operating Disbursements:					
Business type activities	70,475	58,848	54,110	88	183,521
Total operating disbursements	<u>70,475</u>	<u>58,848</u>	<u>54,110</u>	<u>88</u>	<u>183,521</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>56,086</u>	<u>56,238</u>	<u>(2,733)</u>	<u>5,087</u>	<u>114,678</u>
Non-operating receipts (disbursements):					
Interest on investments	5,138	3,165	513	-	8,816
Debt service	(20,734)	(50,748)	-	-	(71,482)
Total non-operating receipts (disbursements)	<u>(15,596)</u>	<u>(47,583)</u>	<u>513</u>	<u>-</u>	<u>(62,666)</u>
Net change in cash balances	40,490	8,655	(2,220)	5,087	52,012
Cash balances beginning of year	<u>315,442</u>	<u>194,305</u>	<u>31,494</u>	<u>-</u>	<u>541,241</u>
Cash balances end of year	<u>\$ 355,932</u>	<u>\$ 202,960</u>	<u>\$ 29,274</u>	<u>\$ 5,087</u>	<u>\$ 593,253</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 25,000	\$ 65,544	\$ -	\$ -	\$ 90,544
Unreserved	<u>330,932</u>	<u>137,416</u>	<u>29,274</u>	<u>5,087</u>	<u>502,709</u>
Total cash basis fund balances	<u>\$ 355,932</u>	<u>\$ 202,960</u>	<u>\$ 29,274</u>	<u>\$ 5,087</u>	<u>\$ 593,253</u>

See notes to financial statements.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Aurelia is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, City of Aurelia has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City.

These financial statements present the City of Aurelia (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Aurelia Municipal Electric Utility was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on, the City. The Utility is governed by a five member board appointed by the Mayor and approved by the City Council. The Utility's operating budget is subject to the approval of the City Council. Complete financial statements of the individual component unit, which will issue separate financial statements, can be obtained from the Utility administrative office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to Cherokee County Assessor's Conference Board, Cherokee County E911 Board, and Cherokee County Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for community betterment projects financed by those funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Sanitation Fund accounts for the operation and maintenance of the City's waste management system.

C. Measurement Focus and Basis of Accounting

The City of Aurelia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, and debt service functions.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, and revenue bonds and notes are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>General Obligation</u> <u>Bonds</u>		<u>Revenue Bonds</u> <u>and Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 40,000	\$ 21,150	\$ 40,000	\$ 32,370	\$ 80,000	\$ 53,520
2007	45,000	19,390	41,500	30,679	86,500	50,069
2008	45,000	17,387	43,025	28,924	88,025	46,311
2009	50,000	15,363	45,577	27,102	95,577	42,465
2010	50,000	13,062	47,155	25,174	97,155	38,236
2011- 2015	220,000	27,795	268,523	93,967	488,523	121,762
2016-2020	-	-	273,898	32,361	273,898	32,361
	<u>\$450,000</u>	<u>\$114,147</u>	<u>\$759,678</u>	<u>\$270,577</u>	<u>\$1,209,678</u>	<u>\$384,724</u>

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

- a. The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. The City shall make annual water bond payments of \$20,734, including interest at 5% per year, to the bondholder in years 1984 through 2020, inclusive.
- c. Sufficient monthly transfers shall be made to separate water and sewer revenue sinking funds for the purpose of making the principal and interest payments when due.
- d. Water and sewer revenue reserve funds will be maintained and consist of funds in an amount equal to at least the maximum amount of principal and interest coming due on the bond and notes in any succeeding fiscal year.

The City has established the sinking accounts required by the water and sewer obligations.

4. CAPITAL LEASE PURCHASE AGREEMENTS

The City has entered into a capital lease purchase agreement to lease a Johnston street sweeper. The following is a schedule of the future minimum lease payments, including interest at 4.05% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2005:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Johnston</u> <u>Street</u> <u>Sweeper</u>
2006	\$ 15,438
2007	15,438
2008	15,438
2009	15,438

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

4. CAPITAL LEASE PURCHASE AGREEMENTS - (Continued)

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Johnston</u> <u>Street</u> <u>Sweeper</u>
2010	<u>\$ 15,438</u>
Total minimum lease payments	77,190
Less amount representing interest	<u>(8,559)</u>
Present value of net minimum lease payments	<u>\$ 68,631</u>

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$9,688, \$9,502, and \$11,080 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$5,223</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

7. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Cherokee County Solid Waste Commission, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2005, \$24,626 was paid pursuant to the agreement.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

7. SOLID WASTE DISPOSAL AGREEMENT - (Continued)

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$1,120,456 as of June 30, 2005, and the portion of the liability that has been recognized is \$977,643. The Commission has begun to accumulate resources to fund the closure costs, and at June 30, 2005 deposits of \$206,135 are held for these purposes. The estimated remaining life of the landfill is 4 years.

Since the estimated closure and postclosure care costs are not fully funded, the Commission is required to demonstrate financial assurance of the unfunded costs. The Commission has adopted the dedicated fund mechanism. The Commission obtained a local government guaranty from Cherokee County on June 10, 1997 for the purpose of financing the postclosure costs of the landfill.

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt service	Special Revenue: Local Option Sales Tax	<u>\$25,008</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. SERVICE AGREEMENTS

The City has an agreement with Sanitation Services for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$29,272 for the year ended June 30, 2005.

10. RISK MANAGEMENT

City of Aurelia is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. HOSPITAL FACILITY REVENUE BONDS

The City has issued a total of \$7,100,000 of hospital facility revenue bonds for Sioux Valley Memorial Hospital under the provisions of Chapter 419 of the Code of Iowa of which \$5,800,705 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the revenue of the hospital and the bond principal and interest do not constitute liabilities of the City.

12. SUBSEQUENT EVENT

The City has accepted a bid to sell approximately twenty four acres of farm land located next to the sewer lagoon for \$88,320.

CITY OF AURELIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

13. CONSTRUCTION COMMITMENT

The City has entered into the following contract which was not completed June 30, 2005.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid as of 6-30-05</u>	<u>Remaining Commitment as of 6-30-05</u>
Street resurfacing	<u>\$30,000</u>	<u>\$ -</u>	<u>\$30,000</u>

The above project will be paid from funds on hand.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AURELIA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	Budgeted Amounts Original and Final	Final to Net <u>Variance</u>
Receipts:					
Property tax	\$ 228,330	\$ -	\$ 228,330	\$ 229,461	\$ (1,131)
Other city tax	69,064	-	69,064	60,000	9,064
Licenses and permits	1,518	-	1,518	1,250	268
Use of money and property	18,037	11,672	29,709	30,926	(1,217)
Intergovernmental	109,825	-	109,825	106,015	3,810
Charges for service	-	294,048	294,048	294,720	(672)
Special assessments	1,973	-	1,973	7,000	(5,027)
Miscellaneous	39,334	1,295	40,629	75,000	(34,371)
Total receipts	<u>468,081</u>	<u>307,015</u>	<u>775,096</u>	<u>804,372</u>	<u>(29,276)</u>
Disbursements:					
Public safety	77,399	-	77,399	78,150	751
Public works	102,014	-	102,014	110,500	8,486
Culture and recreation	112,856	-	112,856	109,400	(3,456)
Community and economic development	20,574	-	20,574	41,400	20,826
General government	75,233	-	75,233	83,050	7,817
Debt service	63,290	-	63,290	63,000	(290)
Business type activities	-	255,003	255,003	312,434	57,431
Total disbursements	<u>451,366</u>	<u>255,003</u>	<u>706,369</u>	<u>797,934</u>	<u>91,565</u>
Excess of receipts over disbursements	16,715	52,012	68,727	6,438	62,289
Balances, beginning of year	<u>490,141</u>	<u>541,241</u>	<u>1,031,382</u>	<u>970,286</u>	<u>61,096</u>
Balances, end of year	<u>\$ 506,856</u>	<u>\$ 593,253</u>	<u>\$ 1,100,109</u>	<u>\$ 976,724</u>	<u>\$ 123,385</u>

See accompanying independent auditor's report.

CITY OF AURELIA
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2005 the budget was not amended.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF AURELIA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	<u>Special Revenue</u>		
	<u>Employee</u>	<u>Library</u>	
	<u>Benefits</u>	<u>Expendable</u>	<u>Total</u>
		<u>Trust</u>	
Receipts:			
Property tax	\$ 36,822	\$ -	\$ 36,822
Other city tax	239	-	239
Use of money and property	-	591	591
Miscellaneous	-	3,316	3,316
Total receipts	<u>37,061</u>	<u>3,907</u>	<u>40,968</u>
Disbursements:			
Operating:			
Public safety	15,387	1,221	16,608
Public works	2,965	-	2,965
Culture and recreation	5,310	2,348	7,658
General government	8,908	-	8,908
Total disbursements	<u>32,570</u>	<u>3,569</u>	<u>36,139</u>
Net change in cash balances	4,491	338	4,829
Cash balances beginning of year	<u>36,816</u>	<u>19,227</u>	<u>56,043</u>
Cash balances end of year	<u>\$ 41,307</u>	<u>\$ 19,565</u>	<u>\$ 60,872</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 41,307</u>	<u>\$ 19,565</u>	<u>\$ 60,872</u>

See accompanying independent auditor's report.

CITY OF AURELIA
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2005

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds:									
Sewer improvement	April 1, 1999	4.35%-5.00%	<u>\$ 665,000</u>	<u>\$ 490,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 450,000</u>	<u>\$ 22,890</u>	<u>\$ -</u>
Revenue bond:									
Water	July 24, 1980	5.00%	<u>\$ 349,700</u>	<u>\$ 224,248</u>	<u>\$ -</u>	<u>\$ 9,570</u>	<u>\$ 214,678</u>	<u>\$ 11,164</u>	<u>\$ -</u>
Revenue notes:									
Sewer	February 16, 1999	3.92%	<u>\$ 695,000</u>	<u>\$ 406,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 386,000</u>	<u>\$ 15,915</u>	<u>\$ -</u>
Sewer	February 16, 1999	3.92%	<u>205,000</u>	<u>167,000</u>	<u>-</u>	<u>8,000</u>	<u>159,000</u>	<u>6,546</u>	<u>-</u>
			<u>\$ 900,000</u>	<u>\$ 573,000</u>	<u>\$ -</u>	<u>\$ 28,000</u>	<u>\$ 545,000</u>	<u>\$ 22,461</u>	<u>\$ -</u>
Capital leases:									
Johnston street sweeper	October 15, 2002	4.05%	<u>\$ 92,489</u>	<u>\$ 80,797</u>	<u>\$ -</u>	<u>\$ 12,166</u>	<u>\$ 68,631</u>	<u>\$ 3,272</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF AURELIA
BOND AND NOTE MATURITIES
YEAR ENDED JUNE 30, 2005

Schedule 3

General Obligation Bonds			Revenue Notes					
			Sewer Improvement			Sewer Improvement		
Sewer Improvement			\$695,000			\$205,000		
Issued April 1, 1999			Issued February 16, 1999			Issued February 16, 1999		
Year Ending June 30,	Interest Rates	Amount	Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
2006	4.40%	\$ 40,000	2006	3.92%	\$ 21,000	3.92%	\$ 9,000	\$ 30,000
2007	4.45	45,000	2007	3.92	22,000	3.92	9,000	31,000
2008	4.50	45,000	2008	3.92	23,000	3.92	9,000	32,000
2009	4.60	50,000	2009	3.92	24,000	3.92	10,000	34,000
2010	4.65	50,000	2010	3.92	25,000	3.92	10,000	35,000
2011	4.75	50,000	2011	3.92	26,000	3.92	11,000	37,000
2012	4.85	55,000	2012	3.92	27,000	3.92	11,000	38,000
2013	4.90	55,000	2013	3.92	28,000	3.92	12,000	40,000
2014	5.00	60,000	2014	3.92	29,000	3.92	12,000	41,000
		<u>\$ 450,000</u>	2015	3.92	30,000	3.92	12,000	42,000
			2016	3.92	31,000	3.92	13,000	44,000
			2017	3.92	32,000	3.92	13,000	45,000
			2018	3.92	33,000	3.92	14,000	47,000
			2019	3.92	35,000	3.92	14,000	49,000
					<u>\$ 386,000</u>		<u>\$ 159,000</u>	<u>\$ 545,000</u>

Water Revenue Bond
Issued July 24, 1980

Interest Rate	Amount
5.00%	\$214,678
Payments, including interest, are \$20,734 due each July 1 until July 1, 2020	

See accompanying independent auditor's report.

CITY OF AURELIA
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST THREE YEARS

Schedule 4

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 228,330	\$ 246,366	\$ 246,564
Other city tax	69,064	74,857	61,543
Licenses and permits	1,518	1,103	1,271
Use of money and property	18,037	13,804	13,586
Intergovernmental	109,825	101,309	117,266
Special assessments	1,973	2,013	7,914
Miscellaneous	39,334	68,670	48,288
Total	<u>\$ 468,081</u>	<u>\$ 508,122</u>	<u>\$ 496,432</u>
Disbursements:			
Operating:			
Public safety	\$ 77,399	\$ 85,354	\$ 80,036
Public works	102,014	94,635	155,393
Culture and recreation	112,856	105,849	123,184
Community and economic development	20,574	19,742	167,326
General government	75,233	94,427	84,920
Debt service	63,290	64,910	88,023
Total	<u>\$ 451,366</u>	<u>\$ 464,917</u>	<u>\$ 698,882</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Aurelia, Iowa

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Aurelia, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 12, 2005. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Aurelia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Aurelia's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Aurelia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Aurelia, and other parties to whom City of Aurelia may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Aurelia during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelman, Putzier & Co.

July 12, 2005

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Office staff continually cross-train and review procedures. The City Council closely monitors operating procedures to obtain the maximum internal control possible.

Conclusion - Response accepted.

I-B-05 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Ensuring that only software licensed to the City is installed on computers.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response - The City Clerk is in the process of preparing policies to ensure software installed is monitored and licensed to the City, and personal use of computer equipment.

Conclusion - Response accepted.

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City Clerk closely monitors the balances in the functions and will amend in sufficient amounts in accordance with the Code of Iowa.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Robert Forbes, Council Member, owner of Forbes & Sons and Sentinel publishing	Supplies	\$ 280

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions with the Council member do not appear to be a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, we noted several instances where the minutes were not signed by an official.

Recommendation - The City should make sure all minutes are signed by an official.

Response - The City Clerk will ensure all minutes are signed by an official.

Conclusion - Response accepted.

II-H-05 Revenue Notes - The City has established the sinking and reserve funds required by the water and sewer revenue note resolutions.

II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-J-05 Excess Balances - The following funds have balances at June 30, 2005 in excess of one year's expenditures:

General

Special Revenue - Employee Benefits
 - Local Option Sales Tax
 - Library Expendable Trust

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - The City Council tries to maintain a close review of balances in the named funds. The City did lower the amount levied for employee benefits, and the Expendable Trust is being used for library expenses from donations. Local Option Sales Tax is used for community betterment.

Conclusion - Response accepted.

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-K-05 Other Information Required by Farmers Home Administration Bond Resolution

Excess Insurance - The following insurance policies were in force at June 30, 2005:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual	Property:		
	90% co-insurance	\$2,563,391	April 1, 2006
Employers Mutual	Inland marine	543,229	April 1, 2006
Employers Mutual	General liability:		
	Each occurrence	1,000,000	April 1, 2006
	Aggregate	2,000,000	April 1, 2006
Employers Mutual	Automobile coverage:		
	Liability	1,000,000	April 1, 2006
	Uninsured motorist	50,000	April 1, 2006
	Underinsured motorist	50,000	April 1, 2006
Employers Mutual	Linebacker:		
	Each occurrence	1,000,000	April 1, 2006
	Aggregate	1,000,000	April 1, 2006
Employers Mutual	Umbrella liability:		
	Retained limit	10,000	April 1, 2006
	Each occurrence	2,000,000	April 1, 2006
	Aggregate	2,000,000	April 1, 2006
Employers Mutual	Volunteer Fire Department:		
	Blanket policy	5,000	April 1, 2006
Employers Mutual	Workers' compensation and employer's liability	500,000	April 1, 2006
Western Surety	Public officials and employees blanket bond	5,000	November 23, 2005
Western Surety	Clerk/Treasurer surety bond	150,000	June 1, 2006

CITY OF AURELIA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-L-05 Other Information Required by Farmers Home Administration Bond Resolution - (Continued)

Statistical Information

Description

Water customers served at June 30, 2005	472
Water rates in effect at June 30, 2005 based on a monthly rate:	
First 167 units at \$0.04377 per cubic foot	
Next 333 units at \$0.03818 per cubic foot	
All over 500 units at \$0.03682 per cubic foot	
Penalty	1 ½% per month
Sales tax	5%
Local option sales tax	1%
Monthly minimum	\$7.31